

Answer all multiple choice questions below; there is only one BEST answer (2 points each)

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|------------------|------------------|
| 1. <u> C </u> | 11. <u> A </u> |
| 2. <u> C </u> | 12. <u> C </u> |
| 3. <u> B </u> | 13. <u> C </u> |
| 4. <u> C </u> | 14. <u> B </u> |
| 5. <u> B </u> | 15. <u> B </u> |
| 6. <u> D </u> | 16. <u> D </u> |
| 7. <u> D </u> | 17. <u> C </u> |
| 8. <u> B </u> | 18. <u> A </u> |
| 9. <u> C </u> | 19. <u> D </u> |
| 10. <u> A </u> | 20. <u> C </u> |

Note: Put answers to problems on Pages provided. Turn in all pages of exam.

Put answer sheets in front of exam.

SCORE

	Possible	Actual
Multiple Choice	40	
Problem I	20	
Problem II	30	
Short Answer	<u>10</u>	
Total	<u>100</u>	

Multiple Choice (2 points each) There is only **ONE BEST** answer.

Use the following information to answer questions 1 and 2.

The trial balance for Houley Corporation appears as follows:

Houley Corporation		
Trial Balance		
December 31, 2005		
Cash	\$	300
Accounts Receivable		500
Prepaid Insurance		50
Supplies		150
Office Equipment		4,000
Accumulated Depreciation, Office Equipment		
	\$	800
Accounts Payable		300
Common Stock		1,000
Retained Earnings		1,400
Service Revenue		3,000
Salaries Expense		1,000
Rent Expense		500
		<u>500</u>
	\$	<u>6,500</u>
		<u>6,500</u>

1. If on December 31, 2005, the insurance still unexpired amounted to \$20, the adjusting entry would contain a
 - A. Debit to Prepaid Insurance for \$30.
 - B. Credit to Prepaid Insurance for \$20.
 - C. Debit to Insurance Expense for \$30.**
 - D. Debit to Prepaid Insurance for \$20.
2. If service for \$125 had been performed but not billed, the adjusting entry to record this would include a
 - A. Debit to Service Revenue for \$125.
 - B. Credit to Unearned Service Revenue for \$125.
 - C. Credit for Service Revenue for \$125.**
 - D. Debit to Unearned Revenue for \$125.
3. An adjusted trial balance
 - A. is prepared after the financial statements are completed.
 - B. proves the equality of the total debit balances and total credit balances of ledger accounts after all adjustments have been made.**
 - C. is a required financial statement under generally accepted accounting principles.
 - D. cannot be used to prepare financial statements.

4. Closing entries
 - A. are prepared before the financial statements.
 - B. reduce the number of permanent accounts.
 - C. cause the revenue and expense accounts to have zero balances.**
 - D. summarize the activity in every account.

5. Under the perpetual inventory system, in addition to making the entry to record a sale, a company would
 - A. Make no additional entry until the end of the period.
 - B. Debit Cost of Goods Sold and credit Merchandise Inventory.**
 - C. Debit Cost of Goods Sold and credit Purchases.
 - D. Debit Merchandise Inventory and credit Cost of Goods Sold.

6. Customers often return merchandise to the store where they bought the merchandise. In order to capture information on returned merchandise, stores should record the dollar amount of merchandise returned by customers
 - A. As a reduction in the Sales account.
 - B. As an addition to the Purchases account.
 - C. In a special inventory account called purchase returns and allowances.
 - D. In a contra-revenue account called sales returns and allowances.**

7. Which of the following statements is **false**?
 - A. The Inventory account is updated after every sale and purchase of merchandise under the perpetual inventory system.
 - B. The Inventory account is updated only at the end of the accounting period under the periodic inventory system.
 - C. A Cost of Goods Sold account is updated after each sale of merchandise under the perpetual inventory system.
 - D. A Purchases account is used under both the periodic and perpetual inventory systems.**

8. ABC Toys received an order from a customer on March 1. The toys were shipped on March 18. The customer sent a check for full payment on April 10. ABC received the check on April 12 and deposited it in the bank account. ABC should record sales revenue related to this series of transaction on
 - A. March 1.
 - B. March 18.**
 - C. April 10.
 - D. April 12.

9. In a period of rising prices, which inventory method is best to use for tax purposes?
 - A. Specific identification.
 - B. Average-cost.
 - C. LIFO.**
 - D. FIFO.

10. When a perpetual inventory system is used, which of the following is a purpose of taking a physical inventory?
- A. **To check the accuracy of the perpetual inventory records**
 - B. To determine cost of goods sold for the accounting period
 - C. To compute inventory ratios
 - D. All are a purpose of taking a physical inventory when a perpetual inventory system is used.
11. Which of the following statements about a periodic inventory system is true?
- A. **Cost of goods sold is determined only at the end of the accounting period.**
 - B. Detailed records of the cost of each inventory purchase and sale are maintained continuously.
 - C. The periodic system provides better control over inventories than a perpetual system.
 - D. The increased use of computerized systems has increased the use of the periodic system.
12. Baxtor Company purchased merchandise inventory with an invoice price of \$5,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Baxtor Company pays within the discount period?
- A. \$5,000
 - B. \$4,920
 - C. **\$4,900**
 - D. \$4,000
13. Sales revenues are usually considered earned when
- A. cash is received from credit sales.
 - B. an order is received.
 - C. **goods have been transferred from the seller to the buyer.**
 - D. adjusting entries are made.

Use the following information to answer questions 14 through 16

Financial information is presented below:

Operating Expenses	\$ 45,000
Sales Returns and Allowances	13,000
Sales Discount	6,000
Sales	150,000
Cost of Goods Sold	67,000

14. Gross Profit would be
- A. \$77,000.
 - B. **\$64,000.**
 - C. \$70,000.
 - D. \$83,000.

15. The gross profit rate would be
- A. .535.
 - B. .489.**
 - C. .511.
 - D. .553.
16. The profit margin ratio would be
- A. .127.
 - B. .132.
 - C. .139.
 - D. .145.**
17. Which of the following statements is correct with respect to inventories?
- A. The FIFO method assumes that the costs of the earliest goods acquired are the last to be sold.
 - B. It is generally good business management to sell the most recently acquired goods first.
 - C. Under FIFO, the ending inventory is based on the latest units purchased.**
 - D. FIFO seldom coincides with the actual physical flow of inventory.
18. Which of the following is **not** generally an accounting time period?
- A. A week**
 - B. A month
 - C. A quarter
 - D. A year
19. Adjusting entries are made to ensure that:
- A. expense are recognized in the period in which they are incurred.
 - B. revenues are recorded in the period in which they are earned.
 - C. balance sheet and income statement accounts have correct balances at the end of an accounting period.
 - D. All of the above.**
 - E. None of the above.
20. Depreciation is the process of
- A. valuing an asset at its fair market value.
 - B. increasing the value of an asset over its useful life in a rational and systematic manner.
 - C. allocating the cost of an asset to expense over its useful life in a rational and systematic manner.**
 - D. writing down an asset to its real value each accounting period.

Problem I (20 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory	10 units @	\$93	=	930
	8	Purchase	55 units @	\$150	=	8,250
	15	Purchase	25 units @	\$181	=	4,525
	19	Purchase.....	35 units @	\$185	=	6,475
	26	Purchase	<u>55</u> units @	<u>\$196</u>	=	<u>10,780</u>
			180			30,960

One hundred and sixty units were sold for \$240 each. The Physical count of inventory at October 31 indicates that 20 units are on hand, and the company owns them.

Required: Complete the comparative income statements below under the various inventory-costing methods.

Hint: Determine sales, then compute ending inventory and cost of goods sold and finally gross profit using each of the following methods (show your calculations in the space provided):

1. Specific identification of unit cost, where the warehouse determines 20 units @ \$185
20 X 185 = 3,700
2. Weighted-average cost
172 X 20 = 3,440
3. First in, first out
20 X 196 = 3,920
4. Last in, first out
10 X 93 = 930
10 X 150 = 1,500
2,430

		<u>Specific ID</u>	<u>Weighted Average Cost</u>	<u>FIFO</u>	<u>LIFO</u>
Sales	160 X 240 =	<u>38,400</u>	<u>38,400</u>	<u>38,400</u>	<u>38,400</u>
Beginning Inventory		930	930	930	930
Purchases		<u>30,030</u>	<u>30,030</u>	<u>30,030</u>	<u>30,030</u>
Good available		30,960	30,960	30,960	30,960
Less: Ending Inventory		<u>3,700</u>	<u>3,440</u>	<u>3,920</u>	<u>2,430</u>
Cost of Sales		<u>27,260</u>	<u>27,520</u>	<u>27,040</u>	<u>28,530</u>
Gross Profit		<u>11,140</u>	<u>10,880</u>	<u>11,360</u>	<u>9,870</u>
			<u>30,960 = 172</u>		
			180		

Problem II (30 points)

PART A

On November 1, 2006, Hale Company purchased a new computer for \$2,800. It is expected to be used for 24 months and then will be sold for \$400 salvage.

The annual accounting period ends on December 31. Give the adjusting entry that should be made on December 31, 2006, assuming no adjustments have been previously made.

General Journal

Entry	Description	Debit	Credit
12-31-06	Depreciation expense Accumulated depreciation	200	200

$$\frac{2,800 - 400}{24} = 100 / \text{month} \times 2$$

PART B

UNC-Chapel Hill sells 55,000 season tickets for home games for \$200 each. Two games are held in September, two in October and one in November. Assuming that \$11,000,000 is credited to unearned season tickets when the tickets are sold, what adjustment is needed for monthly financial statements at the end of November?

General Journal

Entry	Description	Debit	Credit
12-31	Unearned season tickets Revenue	2,200,000	2,200,000

$$\frac{11,000,000}{5 \text{ years}} = 2,200,000 / \text{year} \times 1$$

PART C

Coastal Beverage started the year with \$3,000 in packing supplies, during the year it purchased \$12,000 more packing supplies. Based on a count at year end packing supplies on hand was \$5,200. Record the adjustment for packing supplies at year end.

General Journal

Entry	Description	Debit	Credit
12-31	Packing supply expense Packing supply	9,800	9,800

$$\begin{array}{r} 3,000 + 12,000 = 15,000 \\ \underline{(5,200)} \\ 9,800 \end{array}$$

PART D

An employer has 5 employees who are each paid \$600 on Friday. If the accounting period ends on Thursday, December 31, what adjusting entry is required?

General Journal

Entry	Description	Debit	Credit
12-31	Salary expense Salaries payable	2,400	2,400

$$120/\text{day} \times 5 = 2,400$$

